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TRADE AND DEVELOPMENT BOARD
Forty-third session
Geneva, 7 October 1996

DRAFT REPORT OF THE TRADE AND DEVELOPMENT BOARD ON ITS FORTY-THIRD SESSION

Rapporteur: Mrs. Violeta Fonseca de Sanabria (Venezuela)

AGENDA ITEMS 2 AND 3

Speakers: Director-General World Trade Organization
Director, Division on Globalization and Development Strategies
Ireland (for European Union)
Cuba (for Latin American and Caribbean Group)
Pakistan (for Asian Group and China)
India
Norway
China
Morocco (for African Group)
Ethiopia
Belarus
Switzerland
Japan
Islamic Republic of Iran
Indonesia

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated by **Friday, 25 October 1996, at the latest** to:

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GE.96-51950

Chapter I

SEGMENT FOR HIGH-LEVEL PARTICIPATION; SUBSTANTIVE POLICY ITEM: FOREIGN DIRECT INVESTMENT AND DEVELOPMENT IN A GLOBALIZING WORLD ECONOMY

(Agenda item 2)

25. For its consideration of agenda item 2, the Board had before it the following documentation:

"Foreign direct investment and development in a globalizing world economy" - report by the UNCTAD secretariat (TD/B/43/5)

World Investment Report, 1996 (UNCTAD/DTCI/32)

World Investment Report, 1996: Overview (UNCTAD/DTCI/32 (Overview))

26. In the context of paragraph 107 (a) of the final document of UNCTAD IX, the Trade and Development Board recommended, at its thirteenth executive session on 8 July 1996, that the one-day segment for high-level participation should take place during the forty-third session of the Board on 10 October 1996. On that occasion, the Board also approved the three topics that would be addressed by the high-level segment.

27. Accordingly, the high-level segment on agenda item 2 was held throughout the day of 10 October 1996. The high-level segment took the form of an UNCTAD Global Investment Forum, presided over by Mr. Alec Erwin, President of UNCTAD IX and Minister of Trade and Industry of South Africa. The panellists participating in the three panels included Government Ministers and corporate executive officers (CEOs) from all over the world. The programme of the Forum and the participation in the panels was as follows:

Morning

Opening statements by Mr. Alec Erwin, President of UNCTAD IX and Minister of Trade and Industry of South Africa, and Mr. Rubens Ricupero, Secretary-General of UNCTAD.

Business perspectives on foreign direct investment and development: views of the business community

Speakers: Ms. Maria Livanos Cattaui, Secretary-General, International Chamber of Commerce

Mr. Douglas Gregory, Senior Advisor, International Trade and Investment, IBM Canada Ltd.

Panel 1: ***Trends, policies and interrelationships***

Trends in FDI, in particular to least developed countries, their determinants and impediments, and policy implications for the promotion of FDI. Interrelationships between investment, trade and technology, and implications for development.

Chairman: Mr. Alec Erwin, President of UNCTAD IX and Minister of Trade and Industry of South Africa

Moderator: Mr. Guy de Jonquières, Business Editor, *Financial Times*

Panellists: Mr. Farooq Sobhan, Secretary of Foreign Affairs, Bangladesh

Mr. Abi Woldemeskel, Vice Minister and Deputy Head, Investment Office of Ethiopia

Mr. Alain Ramaroson, Minister of Industry, External Trade and Crafts, Madagascar

Mr. Dhundi Raj Shastri, Minister of Industry, Nepal

Mr. Mohib Ullah Shah, Deputy Minister of Investment, Pakistan

Mr. Yeo Cheow Tong, Minister of Trade and Industry, Singapore

Mr. Basoga Nsadhu, Minister of State for Finance, Uganda

Mr. Peter Brabeck, Executive Vice President, CEO designate, Nestlé S.A., Switzerland

Mr. John Koo, President and CEO, LG Electronics Inc., Republic of Korea

Mr. Bill Jordan, General Secretary, International Confederation of Free Trade Unions

Resource person: Mr. Sanjaya Lall, Lecturer, Development Economics, Oxford University

Afternoon

Panel 2: ***Towards a multilateral framework on investment?***

Examination and review of existing agreements, identification and analysis of issues relevant to a possible multilateral framework on investment and implications for development.

Chairman: Mr. Rubens Ricupero, Secretary-General of UNCTAD

Panellists: Mr. Long Yong-Tu, Assistant Minister of Foreign Trade and Economic Cooperation, People's Republic of China

Mr. I. Adam, Minister for Trade and Industries, Ghana

Mr. B.B. Ramaiah, Minister of State for Commerce, India

Mr. Yoji Ishimaru, Director-General, International Economic Affairs Department, Ministry of International Trade and Industry, Japan

Ms. Danuta Hübner, Vice-Minister of Industry and Trade, Poland

Mr. F. Hamburger, Director for Development Policy, European Commission, Brussels

Mr. Rufus Yerxa, Partner, Akin & Gump Law Firm, Brussels, former Deputy United States Trade Representative

Mr. Thomas Bata, Honorary Chairman of Bata Shoe Organization, Canada

Mr. Martin Khor, Chairman, Third World Network, Malaysia

Resource person: Mr. Monty Graham, Senior Fellow, Institute for International Economics, United States

Panel 3: ***Where do we go from here? Views from regional and international organizations***

Chairman: Mr. Alec Erwin, President of UNCTAD IX and Minister of Trade and Industry of South Africa

Moderator: Mr. James Morgan, Chief Economics Correspondent, BBC World Service

Panellists: Mr. William Rossier, Chairman of the WTO General Council

Mr. Patrick N. Sinyinza, President, Trade and Development Board

Mr. Marino Baldi, Chairman, Committee on International Investment and Multinational Enterprises, OECD, on behalf of the OECD Negotiating Group on the Multilateral Agreement on Investment

Mr. Melito Salazar, Under-Secretary, Ministry of Trade and Industry, and Managing Head of the Board of Investment of the Philippines, on behalf of APEC

Mr. Antonio Kandir, Minister of Planning and Budget of Brazil, on behalf of MERCOSUR

Ms. Joanna Shelton, Deputy Secretary-General, OECD

Mr. Rubens Ricupero, Secretary-General of UNCTAD

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Closing statements by Mr. Rubens Ricupero, Secretary-General of UNCTAD, and Mr. Alec Erwin, President of UNCTAD IX and Minister of Trade and Industry of South Africa

28. A written message from Mr. Boutros-Ghali, Secretary-General of the United Nations, was addressed to the high-level segment of the Trade and Development Board. The text of the message was circulated in TD/B/43/L.3.

[To be completed as appropriate]

Chapter II

INTERDEPENDENCE AND GLOBAL ECONOMIC ISSUES FROM A TRADE AND DEVELOPMENT PERSPECTIVE: RETHINKING DEVELOPMENT STRATEGIES; SOME LESSONS FROM EAST ASIAN DEVELOPMENT EXPERIENCE

(Agenda item 3)

29. For its consideration of agenda item 3, the Board had before it the following documentation:

Trade and Development Report, 1996 (UNCTAD/TDR/16)

Trade and Development Report, 1996: Overview (UNCTAD/TDR/16 (Overview))

A. Statement by Mr. Renato Ruggiero, Director-General of the World Trade Organization

30. The **Director-General of the World Trade Organization** said that the goals of economic development and trade liberalization were linked in an increasingly interdependent world. The nature of the world trading system had been transformed since the 1940s. WTO rules today encompassed standards, services, intellectual property, trade-related investment and a host of other economic activities. WTO membership now stood at 125 countries, 80 per cent of which were developing countries or countries in transition. Globalization of economic activity and deep integration had greatly reinforced the inherently interdependent and mutually beneficial nature of trade. The international community was no longer writing the rules of interaction among separate national economies, but rather the constitution of a single global economy, and the primary focus should be on advancing the trading system as a whole. Real economic interests were increasingly global and economic security hinged more and more on the strength of others. The clearest manifestation of this was the growing role of the developing countries in the international trading system. Ninety of the WTO's 125 members were in the developing world and 30 of those countries that had applied to join were developing countries or economies in transition. Developing countries were increasingly active participants in the functioning of the system, having initiated about half the requests for WTO consultations or panels in the past 18 months - a large increase in comparison with their share of 10 per cent of the disputes examined by GATT between 1980 and 1994. Developing countries' growing leverage in the global trade system was based on raw economic power: they currently accounted for a quarter of world

trade and, if current trends continued, this figure could reach 40 per cent by the year 2010 and over half by 2020.

31. Thus the paradigm for economic development had changed dramatically. While the conventional wisdom used to be that developing economies needed protection, if only temporarily, from international trade and competition, it was now recognized that the opposite was true. Open trade spurred innovation and creativity, fostered specialization and lowered input costs. The old orthodoxy that foreign direct investment posed a risk to development was being stood on its head. Foreign investment had emerged as the central nervous system of the world economy, supplementing domestic savings and increasingly providing the linkage through which flowed investment in production, access to global distribution networks and mastery of current technologies on which sustained growth now depended. No one stood to benefit more from globalization than did developing countries. All countries now competed for the same investments, markets and innovative edge. In this sense, globalization was a great leveller, and the lines separating the developed, developing and least developed worlds were blurring.

32. Growing trade and production benefited all parties. In 1995, imports of the 10 leading Asian developing countries had amounted to nearly $750 billion. By the end of the next decade, it was estimated that developing countries would buy over a third of industrialized countries' exports. Exports were now more than ever significant for employment. Far from costing the developed world jobs, import demand from the economies in Asia and Latin America had greatly softened the effects of recession; but the developing world's continued growth strongly depended on access to developed-country markets. Although the major developing economies had begun to generate their own internal demand and many had grown rapidly since 1990 without the stimulus of demand in developed countries, they remained dependent on access to services, investment and technology supplied by developed countries.

33. The success or failure of all countries depended on the success or failure of the global community as a whole. At the G-7 meeting in Lyon, where the plight of the least developed countries had been a priority, he had emphasized commitment to four points: full and rapid implementation of the Marrakesh Declaration on least developed countries; improving the market access of such countries by working towards elimination of all tariffs and non-tariff barriers to their exports; helping improve the investment climate for such countries, especially by creating a more level playing field through the negotiation, at the appropriate time, of multilateral rules on investment; and helping build human and institutional capacity by improving the effectiveness and co-ordination

of technical co-operation. He would continue to press these proposals, and hoped the report of the WTO's Committee on Trade and Development to the WTO Ministerial Meeting in Singapore in December 1996 would aid in this cause. All available tools - trade, investment and structural adjustment - must be brought to bear on the problem of the marginalization of least developed countries, and there must be close cooperation between WTO, various organs of the United Nations system, the Bretton Woods organizations, and the various regional bodies to ensure that the resources and expertise of the international community remained focused, coordinated and relevant to the most pressing global needs.

34. Developing and developed countries alike should play a positive role in preparing for the Singapore Ministerial Meeting because of the interests of all in designing the common rules and structures of a shared global economy. Nothing exemplified this new logic of trade policy more than the issue of investment. There was already a consensus that the issues of trade and investment were intimately linked in the context of globalization, and that the issues raised by this linkage needed further examination. The UNCTAD and WTO secretariats were already working together very closely in analysing investment issues, and recent reports published by both of them reflected this collaboration. There was a real possibility in Singapore of reaching an MFN agreement to eliminate all tariffs on a great number of information technology products by the year 2000. The value of trade involved in an Information Technology Agreement would be at least $400 billion, which was more than the value of the world's total agricultural trade. Singapore would also offer an occasion to explain where the process of globalization - which was changing peoples' lives and sparking an intense debate about jobs, incomes, social standards and the environment - was leading, and to build the bridges between countries required by their interdependence.

B. General debate

35. The **Director of the Division on Globalization and Development Strategies** opened the debate on this item with a statement which drew special attention to the section of the *Trade and Development Report 1996* on lessons from East Asian experience for development strategies.

36. The representative of **Ireland**, speaking on behalf of the **European Union**, pointed out that there was no single Asian development model as each case had specific characteristics. However, there was a consensus on some common features of most, if not all, successful economies. These included macroeconomic stability, high rates of domestic saving, maintenance of sound financial intermediaries, high priority given to human resource development (especially to high-quality primary and secondary education), competitive exchange rates,

export orientation, a supportive environment which rewarded entrepreneurship and allowed open and constructive dialogue between government and the private sector regarding objectives and policies, and governance which balanced the promotion of social cohesion and consensus with that of competition between individuals and companies.

37. There was substantial overlap between the classical framework of structural adjustment and the common features identified in the Asian experience. Both indicated that the private sector should play the central economic role, without needless bureaucracy and controls on business activity; that the policy environment should provide macroeconomic stability and a competitive exchange rate, and that it should support an internationally competitive private sector; that public services and infrastructure should be efficient and effective; that fiscal deficits should be curtailed to allow mobilization of savings for investment, and that public expenditure should accord priority to human-resource development; that financial institutions should inspire confidence and offer positive real interest rates; that export industries should have ready access to imported inputs; and that labour markets should be sufficiently flexible.

38. The European Union broadly supported a general approach along these lines. The main differences between the Asian policy approach and that promoted by the EU in its economic cooperation related to protection against imports and government *dirigisme*, especially with regard to selecting and promoting new industries via State intervention. The latter practice had resulted in very uneven success both among Asian countries and elsewhere, and had in some cases strongly undermined growth capacity.

39. He observed that whereas the first tier of newly industrializing economies in Asia were compelled to focus their export drive almost exclusively on industrial-country markets, there was now scope for increased trade among developing countries. Likewise, there were now many alternative sources of foreign investment for developing countries, including the more advanced developing countries. Commenting on the need to assist many developing countries, especially the least developed countries, with the promotion of exports, he said the EU had taken note of the suggestion in the *Trade and Development Report 1996* for establishing an international marketing and information service, but was of the view that such assistance should take place at a level as close as possible to the relevant industry and be based upon detailed understanding of export capabilities. This task was, he felt, already an important activity of the International Trade Centre UNCTAD/WTO and was also included in bilateral development assistance.

40. Finally, he stated that the European Union wished to place on record its objection to the argument put forward in the *Trade and Development Report* that European economic and monetary union would prove to be a deflationary process.

41. The spokesman for the **Latin American and Caribbean Group** (Cuba), commending the Secretary-General's efforts to finalize the restructuring of the secretariat, emphasized the need henceforth for stability in order to enable UNCTAD to continue playing a useful role in world development.

42. He noted with disappointment from the *Trade and Development Report 1996* world economic growth in 1994 and 1995 had been below expectations, and was expected to remain so in 1996. This slow growth of the world economy, which was largely due to deflationary policies in the developed countries, especially in Western Europe, was a serious threat to globalization and was having negative effects on the developing countries. He considered the *Report*'s view that economic prospects for the South were now more brilliant than those for the North to be over-optimistic, because rapid growth in the South remained limited to a small number of countries. In Latin America, in particular, the modest regional growth rate of 2.5 per cent forecast by the *Report* would not allow for a significant increase of per capita incomes in 1996. However, one positive element was the performance of Chile, which had been able to maintain growth rates comparable to those of East Asian countries, while maintaining macroeconomic stability. He suggested that a case study on Chile might be carried out in the framework of the Commission on Investment, Technology and Related Financial Issues, in order to single out useful aspects of that country's experience which could be applied to other countries in the region, especially in the field of investment promotion.

43. In the view of the Latin American and Caribbean Group, the secretariat's recommendation of an increase in domestic savings and investment and of greater export competitiveness was very difficult to carry out for developing countries which were still facing protectionist barriers in developed countries' markets, and were hampered by a lack of international financing on reasonable terms. Indeed, the *Report* recognized that private capital flows were benefiting only a handful of countries, and most developing countries were as dependent as ever on official financing. His Group therefore proposed that the secretariat analyse alternative credit mechanisms, and urged the developed countries to understand the South's financing requirements.

44. He expressed agreement with the *Report* on the urgency of reforming the planning and institutional framework of development policies in many developing countries. On the issue of replicating the East Asian export-led success, he

felt that many interventionist policies applied in that region in the past were probably not feasible for other developing countries in the current international situation. This left open the question of the right development strategy for these countries, taking into account national and regional characteristics. While acknowledging the central importance of national policy efforts aimed at macroeconomic adjustment, he underlined the need for adequate international support. Moreover, promotion of economic cooperation among developing countries, mainly structured around regional and subregional integration, was also extremely important.

45. The spokesman for the **Asian Group** and **China** (Pakistan) said that, while global interdependence was already a reality, the globalization process was intensifying interdependence by bringing economies even closer together and making them more dependent on each other. Globalization was neither totally benign nor totally harmful. It offered opportunities and involved costs. The opportunities had to be identified and exploited in such a way that globalization did not become a process in which the winners took all, thus widening the gap between those able to reap the gains of globalization and those left behind. The enormous human and social strains of globalization could be minimized by stimulating sustained economic growth, particularly in the major industrialized countries. He therefore noted with concern the continued slow recovery in the industrialized world, particularly in Western Europe. Deflationary policies adopted by the developed countries had contributed to this situation.

46. There were two other issues deserving immediate attention. The first was the instability in international financial markets. He noted with satisfaction the initiative taken by the IMF to face such a situation in the future but felt that the proposal put forward by the G-24 for multilateral coordination and surveillance of macroeconomic policies of industrialized countries should be given serious consideration. The second issue was the problem of debt, which continued to haunt many developing countries. The recent initiative taken by the World Bank and IMF, with support from the G-7 and Paris Club Creditors, was encouraging. However, the initiative fell short of the expectations of the heavily indebted poor countries in three respects: the debt sustainability criteria were still restrictive; appropriate flexibility was needed in determining country eligibility; and a more realistic time frame for eligibility should be offered.

47. The sustained export-led growth and development in the East Asian countries was extremely important for their developmental efforts, and great interest attached to the question of whether this could be replicated by other developing countries. Many in the developing world had not been satisfied by the neo-

classical approach adopted by the World Bank in its assessment of the Asian development experience, and UNCTAD had made a useful contribution to this ongoing debate. The *Trade and Development Report* had gone beyond the traditional argument put forward by the World Bank in various respects: first, by emphasizing the need to establish a dynamic interaction between exports and investment; secondly, by showing the importance of mobilizing and making full use of natural resources and abundant, unskilled labour and of continuously upgrading industries and moving up the technological ladder; and thirdly, by pointing to the challenges for government policies involving new forms of intervention to support a dynamic process of development. However, the debate on the East Asian miracle was far from over, and there were still many questions which needed to be answered. These related to the vulnerability of countries dependent on FDI, the more restricted role that government policies could now play and the strongly regional nature of the East Asian experience. Concerning this last issue, he pointed out that newly industrialized economies could become the source of FDI as well as markets for the products of other less developed countries. He therefore urged UNCTAD to study this dimension of East Asian development in greater depth. Finally, he expressed disappointment at the failure of the *Trade and Development Report* to discuss the actual impact of new trading opportunities created by the Uruguay Round Agreements on the exports of developing countries, and he called on the secretariat to devote a section of next year's Report to this aspect.

48. The representative of **India** considered the examination in this year's *Trade and Development Report* of the success of the East Asian developing countries to be particularly useful in view of recent rapid changes in the international economy. Important lessons to be learned from the Asian experience in such areas as investment and savings, research and development and regional policies. On the basis of a policy of gradual reform, India had been able to achieve a remarkable level of output growth, surpassing that of the Asian region as a whole. But the picture was disconcerting for most of the developing countries in Latin America and Africa, which faced difficult external situations, shrinking ODA flows and inadequate international assistance.

49. He shared the view that the Uruguay Round Agreements provided new opportunities for developing countries on the one hand, but reduced their policy autonomy on the other; and that some policy options once successfully employed by East Asian countries were no longer viable. He drew attention to the *Report*'s conclusion that the economic success of East Asian countries was based on a mix of policy intervention and market forces which ensured that rapid capital accumulation and technological progress were matched by corresponding progress in export growth and diversification. With regard to the international policy

discussion in the aftermath of the Uruguay Round, he felt that the growing tendency to focus on globalization had diverted government and international organizations from giving adequate attention to country-specific development issues.

50. While recognizing the importance of the promotion by developing countries of South-South cooperation, he expressed concern at protectionist uses of the existing rules of the multilateral trading system, particularly the attempt on the part of some developed countries to introduce new issues not directly related to trade into the WTO agenda. The multilateral trading system would not be best served by an involvement in non-trade issues such as investment, labour standards, competition policy, government procurement, immigration and corruption. In addition, he believed that any further liberalization of international trade should give primacy to the interests of developing countries. Indeed, any arrangement or system that accentuated existing global disparities was to be rejected.

51. The representative of **Norway** congratulated UNCTAD on the innovative way in which the discussions on interdependence and investment had been undertaken during the current session of the Trade and Development Board, with the active involvement of the private sector and the civil society in UNCTAD's work. Stemming from the decisions taken in Midrand, this approach could serve as a model for intergovernmental processes in other United Nations organizations. UNCTAD had been re-established in Midrand as a politically interesting and economically relevant organization which was in charge of key development issues not covered by other United Nations bodies. This new impetus had given UNCTAD a breathing space, but its capacity to implement the decisions taken by Member States must be demonstrated on a continuing basis and the secretariat needed to be assured that it had the support of member States in this endeavour. Questions related to LDCs were of cardinal importance, and his Government would hold UNCTAD accountable for its commitment towards the LDCs. These questions should be dealt with as a cross-cutting issue in UNCTAD's activities.

52. He believed that the Secretary-General of UNCTAD urgently needed to address the improvement of UNCTAD's capacity to link the analysis of integration and globalization with policy implementation, i.e. the sequencing of policy analysis, policy development at the country level and technical assistance. His country was ready to enter into a dialogue with UNCTAD on increased support for technical cooperation activities, provided that activities were focused and the planning procedures agreed upon were set in motion. Restructuring the secretariat should not undermine its technical cooperation activities; they should be pursued on the basis of common guidelines and coordinated in a central unit of the

secretariat. A successful conclusion of the reform process in UNCTAD was of interest to the United Nations system as a whole, and he shared the concern of the Secretary-General of UNCTAD at the insufficient knowledge in New York about the reform process taking place in Geneva-based organizations.

53. As for the issues dealt with under agenda item 3, he considered that both the economics and policies of globalization were complex and the challenge for policy-makers was to weigh the various needs and demands, while ensuring that economic progress was politically and environmentally sustainable, and that it took account of the interests of the whole population.

54. The representative of **China** said that continued publication of the *Trade and Development Report* was essential for understanding and assessing the global economic situation as well as for the fulfilment of the mandates of UNCTAD. While a number of developing countries in the state of backwardness were gradually taking the road to economic revival, the gap between developed and developing countries as a whole was still widening. Most developing countries still suffered from the serious constraints of an unfavourable external environment in their efforts to achieve economic and social development, and were also faced with the danger of being marginalized.

55. He agreed with the assertion in the Report that exports to and investments from developed countries have been an important driving force for the East Asian economic growth, which in recent times had been the most vigorous in the world. Developed countries could intensify these processes, thereby giving a further impetus to economic development of developing countries. However, there was an unfortunate trend towards intensified protectionism in major developed countries, at the very time when developing countries had been further opening up their economies. This trend would harm the interests of developing countries but eventually those of developed countries as well. Only by strengthening exchange and cooperation on the basis of equality and mutual benefits could solutions be found to the new problems.

56. It was imperative that each country formulate policies for economic and social development in accordance with its own national conditions. Differences in the levels of economic development must be recognized so as not to force developing countries to keep rigidly in pace with developed ones in the process of liberalization of trade and investment. In this regard, the legacy of some developing countries in terms of lessons and experiences was far-reaching.

57. The increasingly complicated international relations resulting from globalization of the world economy had resulted in a greater need for

multilateral frameworks. The meeting among the executive heads of the World Bank, IMF and WTO during the recent G-7 Summit was a welcome first step in this direction. He was pleased to note that the South-South Conference on Trade and Finance, to be convened in Costa Rica in January 1997, would attract attention to the importance of South-South cooperation, and would formulate new strategies and programmes of action.

58. By continuing its policy of reform and opening its economy to the outside world, China had maintained an excellent economic growth rate, which was expected to reach 10 per cent in 1996; and inflation was expected to be under 10 per cent. This year had also witnessed the launching of the ninth "Five-Year Plan" and the long-term objective outline for the year 2010. Goals included quadrupling the average per capita GNP of 1980 by the year 2000, doubling the GNP of the latter year by the year 2010, and evolving a more perfect socialist market economy. But although China's efforts in the coming 15 years further might enhance the country's overall strength, it would still remain a developing country. China was ready to join other countries in common efforts to achieve economic development and to contribute to the promotion of peace, stability and development.

59. The spokesman for the **African Group** (Morocco) said that it was difficult to be optimistic about the possibilities for the African continent to achieve economic and social development, given the negative net external financial flows experienced by the region. The slight improvement in commodity prices in 1995 had been largely offset by two interdependent factors: lack of access to international capital markets and high debt-service payments. These two problems had been compounded by unstable foreign-exchange markets. Describing selected external and internal features of Africa's economic situation, he said that the share of African countries in world production and trade continued to decline. In addition to problems linked to instability and weather conditions, the economic situation in many African countries had been affected by poor productivity, difficulties in management, failure to diversify exports, and vulnerability to the international economic environment. Moreover, Africa's share of FDI remained small and bold measures had yet to be taken to deal with the debt problem of African countries. The recent initiative on debt was most welcome, but he regretted that it had not been possible to reach a consensus on its financing. He was convinced of the necessity and urgency of bolder measures to solve the debt problem, which constituted a major obstacle to development in many African countries.

60. The African Group was interested in the conclusion of the *Trade and Development Report* that major features of the East Asian development model could

be replicated in other countries provided that the North did not close its markets. South-South cooperation could help to compensate for the lack of access to export markets in the North and for the slow growth of the developing countries. Every effort should be made to help African countries to draw lessons from the East Asian development experience - a task for which UNCTAD was fully qualified.

61. The representative of **Ethiopia** commended the extensive coverage of the debt issue in the *Trade and Development Report* and thanked UNCTAD for technical assistance provided in debt negotiations and with respect to the installation of debt-management software. He welcomed also the ongoing efforts of IMF and World Bank to formulate a solution for the debt burden of the heavily indebted poor countries, including Ethiopia, as well as the United Nations Special Initiative for Africa, which was governed by the principle that African countries had the primary responsibility for reversing poverty. Noting that the analysis presented in the *Trade and Development Report* of the lessons of the East Asian experience had given extensive coverage to the role of manufacturing, he pointed out that the transformation of the agricultural sector during the early stage of economic development in Japan also offered important lessons for Africa generally, and in particular for Ethiopia, which was an overwhelmingly agrarian country.

62. In his view, the main obstacle to faster economic growth in Africa was a supply-side constraint. Upgrading physical infrastructure and developing human resources were important measures for relieving this supply-side constraint - measures in which UNCTAD could play a vital role. Despite the progress of globalization, external financing remained a critical constraint for the LDCs. Thus significant improvements in the flow of investment and other resources should be accorded the utmost importance. This was another area in which UNCTAD had a role to play.

63. The representative of **Belarus** said that the creation of an environment conducive to growth and sustainable development should take place primarily at the country level, in line with the Midrand idea that countries should bear the main responsibility for their own development. However, as interdependence increased, internal economic processes were more and more affected by external conditions. Thus the creation of an external environment conducive to growth and development was central to the agenda of the world community, including international organizations such as UNCTAD.

64. The *Trade and Development Report 1996* showed that the world economy was growing unevenly. Some countries were achieving considerable success in their

development, while others were still searching for a way out of their crises. Belarus belonged to the latter group. The recent "Programme of Belarus for Social and Economic Development up to Year 2000" took account of both positive and negative aspects of the current economic situation and outlined ways to overcome current difficulties. The country's economic stabilization measures were already bearing fruit: the economic decline was bottoming out and inflation rates had sharply decreased. It was now the Government's intention to develop modern exports on the basis of attractive investment policies. The country also intended to join the multilateral trade arrangements.

65. Although he was of the view that the development experience of East Asian newly industrialized countries could not really be replicated, he felt that many useful lessons for other countries could be drawn from their experience. Thus Belarus was especially interested in the successful experience of the first-tier Asian countries in developing science-intensive production and in improving the efficiency of their production in terms of energy and materials. His own country still had to overcome many difficulties related to lack of natural resources, to the necessity to downsize material and energy production, to the need to attract foreign investment, and to factors that were hampering the efforts to reduce unemployment.

66. The representative of **Switzerland** commented favourably on the quality of this year's *Trade and Development Report*, although he objected to the inclusion of such subjects as the debt of developing countries which had been de-emphasized among the new priorities for UNCTAD agreed at UNCTAD IX. Moreover, he disagreed with the analysis that weak growth and high unemployment in Europe were due to tight fiscal policies, the effects of which should be compensated by a less restrictive monetary policy. The Swiss authorities were convinced that only a healthy fiscal and monetary policy would be able to guarantee the macroeconomic stability that was the basis of durable growth. Europe's unemployment problem was due to structural rigidities in the labour market, which retarded the adjustment of European economies to globalization. Labour market reform in the direction of greater flexibility would thus be more appropriate in solving Europe's unemployment problem.

67. Turning to the question of whether the industrialization experience and rapid development of East Asia could be a model for other developing countries, he noted that the Report had shown the positive role of exports in the development of East Asian countries. Export earnings had constituted an important source of finance for investment in the development of productive capacities. Trade liberalization as a result of the Uruguay Round was essential in improving developing countries' access to the markets of both industrialized

and other developing countries. Liberalization should encourage some countries to apply the positive experience of Asian countries and to open their markets.

68. He was convinced that the laws of the market would automatically determine victory in competition for products and export markets, and that this process would benefit developing countries. Consequently, the proposal to establish in UNCTAD a marketing and information service to orient developing countries towards promising markets was not very sound. In his view, the role of governments was to create a stable macroeconomic and political environment, to put in place a competent and effective administration, and to create a juridical framework that favoured private investment and guaranteed the maximum development of human resources. The example of East Asian countries had demonstrated the validity of this concept.

69. The representative of **Japan** expressed his appreciation for UNCTAD's initiative in taking up the lessons of the East Asian development experience. His Government had supported, and would continue to support, UNCTAD's efforts to explore the applicability of East Asian experiences to other regions, particularly to Africa where many LDCs had been marginalized in the process of the globalization.

70. He drew attention to two major points made in the *Trade and Development Report*. Firstly, developing countries were not necessarily placed in a more disadvantageous position in the post-Uruguay Round period than before. While some policy options that had been available to East Asian countries were no longer compatible with current international rules, developing countries, particularly the LDCs, had been granted the benefit of a longer transitional period. Furthermore, new opportunities for these countries had also been provided by the Uruguay Round. The second important point concerned the role of the first-tier newly industrializing countries. By providing markets and investment to the second-tier economies, they had promoted not only South-South cooperation but also regional dynamism in East Asia. This could provide lessons for other regions.

71. Aspects of East Asian development experiences identified by UNCTAD and still valid included the following: firstly, domestic saving could be developed by postal savings and cooperative savings in a country where the financial sector was not highly developed; secondly, the Government could utilize these savings for investment in the industries of the future; thirdly, the Government could play an important role in the building of human and institutional capacity; fourthly, the proper relationship between the public and private sectors involved both cooperation and discipline; fifthly, the large increase in inflows of FDI

in East Asian countries had resulted from effective policy management, including the relaxation of foreign exchange controls and the promotion of transparency regarding investment rules; and sixthly, the improvement of local infrastructure should receive particular attention by the local government - a policy which would be supported by Japanese ODA. In applying the lessons of East Asian experiences to other regions where institutional structures remained underdeveloped, Governments should take a gradual approach involving initially the dissemination of information, vocational training and industrial technology enhancement rather than highly complex policies providing incentives to particular economic activities.

72. The representative of the **Islamic Republic of Iran** expressed concern that the *Trade and Development Report*'s forecast of slow world economic growth reflected the effects of the unequal access of developing countries to external lending and FDI. However, these countries had made great efforts to adjust to meet the new challenges, performing especially impressively in international trade. Although the UNCTAD secretariat had dealt with the subject of East Asian development twice in the *Trade and Development Report*, there was still a need for concrete analysis of the historical and socio-economic context in which the models pursued by countries in that region had evolved. While some elements of the experience could be used by other developing countries, adjustments would be required, especially owing to the fact that the new multilateral rules left developing countries with less scope to support potentially viable new industries.

73. UNCTAD's debt support programmes needed to be dynamic and flexible and its technical cooperation activities deserved support. The scope of UNCTAD's discussion on investment issues should be expanded. The savings resulting from the restructuring of UNCTAD could be recycled into technical cooperation which should also cover the social aspects of economic policy. The latter subject could be included in a future *Trade and Development Report*.

74. The representative of **Indonesia** said that, for more than two decades, the East Asian countries, including Indonesia, had enjoyed unprecedented rates of economic growth. A combination of favourable developments and sustained domestic policy reforms had enabled the countries of this region to record a strong growth performance in recent years. The end of the recession in the industrial countries had favourably influenced exports from the region, which had also received a considerable inflow of foreign direct investment and other external financial flows, although these had remained concentrated in a few countries. Most countries in the region were committed to liberalization and deregulation. However, their remarkable achievement could not be attributed to a single model

of economic development, but reflected the pragmatic response of policy-makers to specific sets of problems. Nevertheless, there were a number of common features: all were market economies that encouraged private entrepreneurship; all had adopted a strategy of export-oriented industrialization coupled with prudent macroeconomic policies; and all had benefited from a situation of relative peace and stability in the Asia-Pacific region.

75. Indonesia's experience illustrated the region's rapid transition from an economy where, just over a quarter of a century ago, 60 per cent of its population had been classified as poor to one where an annual average growth of 7 per cent had been sustained over two decades, and where the incidence of absolute poverty now affected less than 14 per cent of the total population. Yet Indonesia's development agenda was in no way complete. Higher growth was rapidly creating a stronger market economy. At the same time the country had reached a particularly difficult stage of development which would require significant forbearance and support from its development partners. Clearly the challenge for developing economies in East Asia was to sustain the dynamism achieved over two decades. It was a formidable challenge which could none the less be met by recourse to the same strategies that had brought about economic dynamism in the first place.